Senate Bill 898 (Nguyen, et al.)
Date: 06/27/16
Program: Sales and Use Tax
Sponsor: Author
Revenue and Taxation Code Section 6358.6
Effective immediately upon enactment, until January 1, 2022

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Summary: Exempts from sales and use tax sales and purchases of animal whole blood, plasma, blood products, and blood derivatives by a nonprofit California Department of Food and Agriculture (CDFA)-licensed establishment, as specified.

Summary of Amendments: Since the previous analysis, the bill was amended to add a sunset date, define "nonprofit," and delete the provisions that would have required the BOE to cancel any notice of determination with respect to these sales.

Purpose: According to the author, the purpose is "to prevent undue hardship on licensed animal blood banks that offer the vital life service of providing critically needed blood products to animals."

Fiscal Impact Summary (Revised): Annual state and local sales and use tax revenue loss of $24,193.

Existing Law: Except where specifically exempted by statute, California's Sales and Use Tax Law[1] imposes the sales tax on all retailers for the privilege of selling tangible personal property at retail in this state or the use tax on the storage, use, or other consumption in this state of tangible personal property purchased from a retailer. The law[2] defines "tangible personal property" to mean personal property which may be seen, weighed, measured, felt, or touched, or which is in any other manner perceptible to the senses. Animal blood is regarded as tangible personal property, the retail sales of which are subject to sales or use tax to the same extent as any other retail sale of tangible personal property not otherwise exempted or excluded from the tax.

Although animal blood retail sales are subject to tax, Revenue and Taxation Code Section 33 specifies that human whole blood, plasma, blood products, and blood derivatives, or any human body parts held in a bank for medical purposes, shall be exempt from taxation for any purpose. Therefore, sales and use tax does not apply to sales of human blood products.

Existing law[3] prohibits the offering for sale or use of any animal blood and blood component product unless it is produced in an establishment licensed by the CDFA. CDFA requires a license for each establishment that produces animal blood and blood products to market or sell for the use in the cure, mitigation, treatment or prevention of injury or disease in animals. The law requires the registration of each blood and blood product being produced and sold.

Proposed Law: Until January 1, 2022, this bill exempts from sales and use tax sales and purchases of animal whole blood, plasma, blood products, and blood derivatives by a CDFA-licensed establishment that is a nonprofit animal blood bank business for the use in the cure, mitigation, treatment or prevention of injury or disease in animals.

The bill defines "nonprofit" as an organization exempt from federal income taxation as described in Section 501(c)(3) of the Internal Revenue Code.

[1] Part 1 (commencing with Section 6001) of Division 2 of the Revenue and Taxation Code (RTC).
[2] Revenue and Taxation Code Section 6016.
[3] Chapter 1.5 (commencing with Section 9201) of Part 1 of Division 5 of the Food and Agricultural Code.

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the BOE's formal position.

Background: According to the CDFA, two animal blood bank establishments hold licenses in California to produce, market, and sell animal blood and blood products. One current licensee is a nonprofit business. These facilities provide whole blood, plasma, platelets, and clotting factors to veterinary hospitals and clinics. The blood used to make these products is collected from one of the animal "blood donors" housed permanently or semi-permanently at the blood bank. California law does not allow pet owners to volunteer their animals as donors to these commercial blood banks.

Commentary:

1. **Effect of the bill.** On a prospective basis, nonprofit licensed animal blood banks will not be required to report sales or use tax on their sales of animal blood products when those sales are for the cure, mitigation, treatment or prevention of injury or disease in animals.
2. **The June 27, 2016 amendments** add a January 1, 2022 sunset date, define "nonprofit," and delete the provisions that would have required the BOE to cancel any notice of determination with respect to these sales. The **May 31, 2016 amendments** limited the bill's provisions to a nonprofit animal blood bank business. The **April 25, 2016 amendments** made a non-substantive change and added 5 coauthors.
3. **This bill does not materially impact the BOE's tax audit or administrative functions.** Since this bill applies to one nonprofit licensed animal blood bank that currently exists in California, this bill would not materially impact the BOE's administrative responsibilities.

Costs: The BOE would incur some absorbable costs related to notification, regulation changes, and publication updates.

Revenue Impact (Revised):

Background, Methodology, and Assumptions. Taxpayers' information contained in the BOE's files and records is confidential.[4] For purposes of this estimate, staff relied upon data provided by a nonprofit CDFA licensed full service blood bank establishment. The most recent complete fiscal year (2014-15) data indicates total blood sales of $764,362. Of this amount, Hemopet estimates total California sales to be $294,692.

Revenue Summary. The sales and use tax exemption for a nonprofit licensed animal blood banks' blood product sales would result in an estimated annual sales and use tax loss of $24,193.

The following is a breakdown of the annual loss:

Fund	Rate	Revenue Loss
State General Fund	3.9375%	$11,603
Local Revenue 2011	1.0625%	$3,131
Local Revenue 1991	0.50%	$1,473
Public Safety Fund	0.50%	$1,473
Bradley Burns	1.25%	$3,684
Special District	0.96%	$2,829
Statewide Average Rate	8.21%	$24,193

This revenue estimate does not account for any changes in economic activity that may or may not result from enactment of the proposed law.

[4] Information Practices Act (Civ. Code § 1798 et seq.), Government Code Section 15619, and Revenue and Taxation Code Section 7056.